SHANGHAI ZENDAI PROPERTY LIMITED
上海証大房地產有限公司*

(Incorporated in Bermuda with limited liability)
(Stock code: 755)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

INTRODUCTION

Reference is made to the annual report of Shanghai Zendai Property Limited (the "**Company**" and together with its subsidiaries, the "**Group**") for the year ended 31 December 2020 (the "**2020 Annual Report**"). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2020 Annual Report.

In addition to the information provided in the 2020 Annual Report, the Board would like to provide further information to the Corporate Governance Report therein in relation to the disclaimer of opinion (the "**Audit Qualification**") issued by the auditor of the Company, namely PricewaterhouseCoopers ("**PwC**"), in relation to the consolidated financial statements of the Group for the year ended 31 December 2020 pursuant to Code Provision C.1.3 of Appendix 14 to the Listing Rules.

DETAILS OF THE AUDIT QUALIFICATION AND MANAGEMENT'S VIEW ON THE AUDIT QUALIFICATION

The Group reported a net loss of HK$1,157 million during the year ended 31 December 2020. As at 31 December 2020, the Group's equity attributable to owners of the Company amounted to HK$71 million and its current liabilities exceeded its current assets by HK$3,331 million. At the same date, the Group's total borrowings amounted to HK$7,036 million (including the current portion of HK$4,289 million). Except for the borrowings from a shareholder of the Company and other companies with which the shareholder is associated of HK$3,073 million as referred to in Note 25 of the consolidated financial statements which are unsecured, the Group's remaining borrowings were collaterised by the Group's properties under development and completed properties held-for-sale, hotel properties and investment properties recorded at a total carrying amount of HK$8,113 million together with fixed deposits amounting to HK$474 million. As at 31 December 2020, the Group had total unrestricted cash and cash equivalents of HK$231 million.

From August 2020 to 31 December 2020, the Group was unable to repay borrowings from a financial institution (the "**Lender of Defaulted Borrowings**") with principal amounts totalling RMB535 million (equivalent to approximately HK$636 million) (the "**Defaulted Borrowings**") and related interest of RMB62 million (equivalent to approximately HK$74 million) (such non-repayments are referred to as the "**Default Events**"). As a result, the entire outstanding principal and interest amounts of these borrowings of RMB906 million (equivalent to approximately HK$1,077 million), would be immediately repayable if requested by the financial institution. These borrowings, all with original contractual repayment dates before 31 December 2021, were classified as current liabilities as at 31 December 2020.

The Default Events triggered cross-defaults of other borrowings of the Group (the "**Cross-Defaulted Borrowings**") with aggregated principal amounts of RMB1,573 million (equivalent to approximately HK$1,869 million) and related interest of RMB3.5 million (equivalent to approximately HK$4.2 million) as at 31 December 2020. These amounts, including borrowings of RMB1,200 million (equivalent to approximately HK$1,426 million) with original contractual repayment dates beyond 31 December 2021, were classified under current liabilities as at 31 December 2020 as they are due upon demand if requested by the respective lenders.

As disclosed in Note 25, a subsidiary of the Company provided an additional financial guarantee to the Lender of Defaulted Borrowings in January 2021. The provision of this additional financial guarantee has resulted in a breach of certain terms and conditions as well as triggered cross-defaults of all the existing borrowings of RMB206 million (equivalent to approximately HK$245 million) (the "**Subsequently Defaulted Borrowings**") of this subsidiary, of which RMB118 million (equivalent to approximately HK$140 million) had original contractual maturity dates beyond 31 December 2021.

In January 2021, the Group drew down an additional short-term borrowing of RMB46 million (equivalent to approximately HK$55 million) due on 31 March 2021 from the Lender of Defaulted Borrowings under the terms of the original loan agreement which the Group did not repay when due.

The Group subsequently repaid a portion of the principal and interest of the Defaulted Borrowings amounted to RMB97 million (equivalent to approximately HK$115 million) and RMB42 million (equivalent to approximately HK$50 million), respectively, following negotiations with the Lender of Defaulted Borrowings. In addition, the Group repaid principal amounts and interest totalling RMB46 million (equivalent to approximately HK$55 million) and RMB42 million (equivalent to approximately HK$50 million), respectively in accordance with the repayment schedules of other borrowings of the Group between 1 January 2021 and the approval date of these consolidated financial statements. The Group also successfully extended a Cross-Defaulted Borrowing with principal amount of RMB71 million (equivalent to approximately HK$84 million) with original maturity date on 26 April 2021 under the same terms of the original agreement despite its continuing default status.

As at the approval date of the consolidated financial statements in the 2020 Annual Report, the Group's defaulted and cross-defaulted borrowings and related interest totalled RMB2,678 million (equivalent to approximately HK$3,182 million). Taking into account the high interest and refinancing costs expected to be incurred, the management of the Company (the "**Management**") expects that the Group's operating results for the year ending 31 December 2021 will not be promising which might turn the Group into a negative equity attributable to owners of the Company during this period.

Given the conditions as detailed above (which are also set out at note 2.1 to the consolidated financial statements for the year ended 31 December 2020 ("**Note 2.1**") in the Annual Report), PwC considered that material uncertainties exist that may cast significant doubt regarding the Group's ability to continue as a going concern.

In view of such circumstances, the Management has given careful consideration to the future liquidity and performance of the Group and its available sources of financing in assessing whether the Group will have sufficient financial resources to continue as a going concern. Certain plans and measures have been or will be taken by management to mitigate the Group's liquidity pressure and to improve its cashflows (as detailed below).

The directors of the Company (the "**Directors**") have reviewed the Group's cash flow projections prepared by Management which cover a period of not less than twelve months from 31 December 2020. The Directors are of the opinion that, taking into account the plans and measures set out in the Annual Report, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2020. Accordingly, the Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

However, Management acknowledges that significant uncertainties exist as to whether Management will be able to achieve its plans and measures. Whether the Group will be able to continue as a going concern would depend upon the following:

- successful negotiations with the lenders of the Defaulted Borrowings, Cross-Defaulted Borrowings and Subsequently Defaulted Borrowings, despite the anticipated operating results for 2021 and the possible negative equity attributable to owners of the Company as mentioned above, such that they will not take any actions against the Group to exercise their rights to demand immediate payment of the principals and interests of these borrowings before the Group is able to secure additional new sources of funding and restructure its existing borrowings, including repaying the Defaulted Borrowings;

- successfully and timely securing new financing from the financial institutions with which the Group is actively negotiating to fund the aforesaid restructuring of its existing borrowings as well as the continued financing of the construction of properties. Securing new financing depends on (1) the current regulatory environment, and whether increased regulation such as the "Three Red Lines" financial supervisory rules for real estate companies, or other restrictions are applicable to the Group and/or these financial institutions; (2) whether the lenders of existing borrowings are agreeable to the terms and conditions of the financing and refinancing agreements; and (3) the Group's ability to continuously comply with these terms and conditions;

- successfully accelerating the construction as well as pre-sale and sale of its properties under development, particularly those two development projects that the Group plans to launch a pre-sale in the second half of 2021 and timely collection of the relevant sales proceeds; including meeting all of the necessary conditions to launch the pre-sale, and to make these pre-sales at the expected sale prices and in accordance with the timelines projected by Management in the Cash Flow Projections; and

- the Group's ability to generate operating cash flows and obtain additional sources of financing other than those mentioned above, to meet the Group's ongoing funding needs as well as successfully controlling administrative costs and capital expenditure.

Should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively.

ACTION PLAN OF THE GROUP TO ADDRESS THE AUDIT QUALIFICATION AND IMPACT OF THE AUDIT QUALIFICATION ON THE COMPANY'S FINANCIAL POSITION

Details of the action plan of the Group to address the Audit Qualification

In order to meet its financial obligations as and when they fall due within the next twelve months and improve the Group's current ratio, the Directors have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate certain delayed repayments to financial institutions, which include:

- the Group will continue its ongoing efforts to convince the lenders of the Defaulted Borrowings, the Cross-Defaulted Borrowings and the Subsequently Defaulted Borrowings not to take any actions against the Group for immediate payment of the principals and interest of these borrowings;

- the Group will continue to actively negotiate with certain financial institutions and identify various options for restructuring the Group's existing borrowings (including the repayment of the Defaulted Borrowings), and financing the continuing construction of properties;

- the Group will seek to accelerate the construction as well as pre-sale and sale of its properties under development. In particular, in the second half of 2021, the Group plans to launch the pre-sale of properties in two development projects with a recorded carrying amount totalling RMB1,749 million (equivalent to approximately HK$2,078 million) as at 31 December 2020;

- the Group will also continue to take active measures to control administrative costs and contain capital expenditures.; and

- seek other alternative financing to fund the settlement of its existing financial obligations and future operating expenditures.

Impact of the Audit Qualification on the Company's financial position

As set out in the 2020 Annual Report, should the Group fail to achieve the abovementioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

Removal of the Audit Qualification

It is considered that the proposed actions mentioned above, if successful, could improve the Group's liquidity and therefore could help to address the Audit Qualification. However, as the Management's assessment of the Group's ability to continue as a going concern for the purposes of preparing the Group's consolidated financial statements for the year ending 31 December 2021 has to take into consideration of the then conditions and circumstances and could only be made at the end of the relevant reporting period, the Company is unable to ascertain at this moment whether the Audit Qualification can be removed in the next financial year purely based on the Company's action plan above.

AUDIT COMMITTEE'S VIEW ON THE AUDIT QUALIFICATION

The audit committee of the Company (the "**Audit Committee**") have held several meetings to critically review the Audit Qualification and the Cash Flow Forecast and to understand the Management's position and action plan of the Group to address the Audit Qualification. The Audit Committee also had discussions with PwC, by which it understood that the main cause of the Audit Qualification is, as mentioned, the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements. In light of the above, the Audit Committee concurs with the Management's view with respect to the Audit Qualification, the Group's ability to continue as a going concern and the actions or measures to be implemented by the Group. The Audit Committee is also of the view that the Management should continue its efforts in implementing the actions and measures set out in the action plan with the intention of mitigating the Group's liquidity pressure and removing the Audit Qualification.

By order of the Board
Shanghai Zendai Property Limited
Mr. Huang Yuhui
Executive Director

Hong Kong, 26 May 2021

As at the date of this announcement, the executive Directors are Mr. Wang Letian, Mr. Huang Yuhui, Mr. He Haiyang and Ms. Li Zhen. The non-executive Directors are Ms. Wang Zheng, Mr. Ma Yun and Mr. Wu Junao. The independent non-executive Directors are Dr. Guan Huanfei, Mr. Chu Chi Wen, Mr. Chen Shuang, Mr. Cao Hailiang and Dr. Lin Xinzhu.

* *For identification purpose only*